



The James Madison Council  
of the Library of Congress  
1998 Annual Report

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February 15, 1999

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New York, NY

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Omaha, NE

**Ms. Diane R. Wolf**  
New York, NY

# 1998 Financial Statements

## Statement of Activities James Madison National Council Fund For the Fiscal Year Ended September 30, 1998

### CHANGES IN UNRESTRICTED NET ASSETS

<b>Revenues</b>	
Membershiv Contributions	<b>\$ 839,446</b>
Miscellaneous gifts	27,241
Interest	132,073
Net Unrealized and Realized Loss on Investments (Note 2)	(47,175)
Imputed financing for cost subsidies (Note 5)	14,154
Net assets released from restrictions	<b>726,208</b>
<b>Total revenue</b>	<b><u>1,691,947</u></b>
<b>Expenses</b>	
Personnel costs	268,815
Travel and transportation and subsistence/support persons	<b>78,439</b>
Other services (See Schedule B)	<b>841,293</b>
Books and library materials	<b>240,020</b>
Exhibit Opening Events, Receptions, and Madison Council Meetings	<b>97,778</b>
Professional and consultant services	<b>80,072</b>
Office supplies and materials	57,225
Printing, publishing, and photoduplicating	41,699
Exhibit supplies	<b>22,629</b>
<b>Total expenses</b>	<b><u>1,727,970</u></b>

### OTHER CHANGES

Transfer to Other Funds for Project Support (Note 6)	124,022
<b>Decrease in unrestricted net assets</b>	<b><u>(160,045)</u></b>

### CHANGES IN TEMPORARILY RESTRICTED NET ASSETS

Contributions	<b>679,662</b>
Net assets released from restrictions	<b>(726,208)</b>
<b>Changes in temporarily restricted net assets</b>	<b><u>(46,546)</u></b>

<b>Decrease in Net Assets</b>	<b><u>(206,591)</u></b>
<b>Net Assets at Beginning of year</b>	<b><u>3,372,495</u></b>
<b>Net Assets at End of year</b>	<b><u>\$3,165,904</u></b>

**Statement of Cash Flows****James Madison National Council Fund**

For the Fiscal Year Ended September 30, 1998

**CASH FLOWS FROM OPERATING ACTIVITIES**

Donations Received	\$1,569,724
Interest Received	125,727
Cash paid to others	(1,466,230)
Cash paid to employees	(259,812)
Transfer to Other Funds	(124,022)
<b>Net cash provided by operating activities</b>	<b><u>\$(154,613)</u></b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment in U.S. Treasury Market Based Securities	<u>\$(1,908,073)</u>
Investment in U.S. Treasury Permanent Loan	<u>(95,499)</u>
Redemption of Investment in U.S. Treasury Market Based Securities	<u>2,050,211</u>
Redemption of Investment in U.S. Treasury Permanent Loan	<u>51,175</u>
<b>Net cash provided by investing activities</b>	<b><u>\$ 97,814</u></b>

<b>Net Decrease in Cash</b>	<u>(56,799)</u>
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<b>Cash at beginning of year</b>	<u>145,929</u>
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<b>Cash at end of year</b>	<b><u>\$ 89,130</u></b>
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**RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES**

<b>Change in Net Assets</b>	<b><u>\$ (206,591)</u></b>
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**ADJUSTMENTS TO RECONCILE CHANGES IN NET ASSETS TO NET CASH PROVIDED FROM OPERATING ACTIVITIES**

Non-cash loss on mutual fund investments	47,175
Decrease in pledges receivables	23,376
Decrease in accounts receivables	18,023
(Increase) in accrued interest receivables	<u>(6,346)</u>
(Decrease) in accrued payroll and annual leave	<u>(5,151)</u>
(Decrease) in accounts payable	<u>(25,099)</u>
<b>Total Adjustments</b>	<u>51,978</u>

<b>Net Cash from Operating Activities</b>	<b><u>\$ (154,613)</u></b>
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**Statement of Financial Position****James Madison National Council Fund**

September 30, 1998

**ASSETS**

<b>Cash</b>	<b><u>\$ 89,130</u></b>
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**Investments: (Note 2)**

U.S. Treasury Market Based Securities	2,177,398
U.S. Treasury Permanent Loan	199,729
Growth and Income Pool	<u>547,572</u>
<b>Total Investments</b>	<b><u>2,924,699</u></b>

**Receivables:**

Pledges (Note 3)	220,715
Accrued interest	24,372
<b>Total Receivables</b>	<u>245,087</u>

<b>Total Assets</b>	<b><u>\$3,258,916</u></b>
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**LIABILITIES AND NET ASSETS**

Accounts payable	\$ 85,715
Accrued payroll and annual leave	7,297
<b>Total liabilities</b>	<b><u>93,012</u></b>

**NET ASSETS (NOTE 4)**

Unrestricted-undesignated	1,703,421
Unrestricted-Council Designated for Projects	796,657
Temporarily Donor Restricted for Projects	665,826
<b>Total Net Assets</b>	<b><u>3,165,904</u></b>

<b>Total liabilities and net assets</b>	<b><u>\$3,258,916</u></b>
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The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

### James Madison National Council Fund

September 30, 1998

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#### **Note 1. Reporting Entity and Summary of Significant Accounting Principles**

##### **A. DESCRIPTION OF FUND**

The James Madison National Council Fund (JMNC Fund) was initiated by the Librarian of Congress, accepted through a poll vote by the Library of Congress Trust Fund Board in July 1989 and reaffirmed October 7, 1989. A gift of \$100,000 from Robert Gwinn, Chairman of the Board of Encyclopedia Britannica, established the Fund. The JMNC Fund is reported in the Library of Congress gift and trust funds.

The James Madison National Council is an advisory board of business people and philanthropists who contribute ideas, expertise, and financial support to support the Library's collections and programs. The Council is open to persons from the private sector interested in advancing the Library's outreach mission. As of September 30, there were 111 members of the Council.

Significant accounting policies followed by the JMNC Fund are presented below.

##### **B. BASIS OF ACCOUNTING AND PRESENTATION**

The Fund's financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles.

Effective for fiscal 1998, the Fund adopted financial reporting standards applicable to not-for-profit organizations. The financial statements are prepared in accordance with Financial Accounting Standards No. 117, and recognizes net assets based on the existence of applicable restrictions limiting their use.

Temporarily restricted net assets result from donor-imposed restrictions that permit the Fund to use or expend the assets after the restriction has been satisfied. When a donor-imposed restriction is satisfied, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Unrestricted net assets result from the receipt of unrestricted contributions, the expiration of donor-imposed restrictions on contributions, and changes in other assets and liabilities. These assets are available to the Fund for use in support of current and future operations. The Library of Congress provides support services to the James Madison National Council. The cost of these services are, by their nature, indirect, difficult to quantify, and financed with appropriated funds of the Library. To the extent that these services are provided, they are not considered operating expenses of the James Madison National Council.

**C. USE OF ESTIMATES**

The preparation of the Fund’s financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

**D. CONTRIBUTIONS AND REVENUE RECOGNITION**

The Fund records as contribution revenue amounts received in the form of cash and promises or pledges to give. Unconditional promises or pledges to give are recognized as a contribution receivable. Multi-year pledges or promises due over a period of time are discounted to their present value, based upon prevailing interest rates, and recognized in the period of the initial pledge.

**E. INCOME TAX**

The JMNC Fund operates for the benefit of the Library of Congress which is an instrument of the United States and, as such, is not subject to income tax.

**F. INVESTMENT POLICY**

The Library of Congress Trust Fund Board determines the investment policy for the Library’s trust funds. The policy provides three options for investment of the JMNC Fund funds:

- a permanent loan with the U.S. Treasury
- a pool of U.S. Treasury market-based securities
- a private investment pool consisting of six stock funds and one money market fund. The funds recommended by the Library of Congress Trust Fund Board’s investment committee and approved by the Board are:
  - Vanguard Money Market Prime Fund
  - CGM Mutual Fund
  - Mutual Beacon Fund
  - Fidelity Fifty Fund
  - Fidelity Stock Selector
  - Vanguard Small Capitalization Stock Portfolio
  - Robertson Stephens – The Emerging Growth Fund

Investments in U.S. market-based securities are stated at cost net of any unamortized premium or discount, which approximates market value at September 30, 1998. The permanent loan is an interest bearing par value investment which equals the market value. Stock and money market mutual funds are stated at current market value.

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**Note 2. Investments**

**A. U. S. TREASURY**

An act of Congress approved March 3, 1925, and subsequently amended, permits up to \$10 million of trust funds to be invested with the United States Treasury as a perpetual loan, at a floating interest rate, adjusted monthly, but no less than four percent per annum. At September 30, 1998, \$199,729 of JMNC Fund funds were invested in the U.S. Treasury permanent loan at an interest rate of five percent. Other investments with U.S. Treasury were as follows:

Investment	Market Based Government Securities
Cost	\$ 2,155,165
Unamortized Premium	\$ 33,556
Unrealized Discount	\$ 11,323
<b>Net Investment</b>	<b><u>\$2,177,398</u></b>

**B. MUTUAL FUNDS**

The JMNC Fund invested \$500,000 in the growth and income pool (non-Treasury mutual fund investments) in 1996. Market value of the growth and income pool as of September 30, 1998, totaled \$547,572.

The net loss on investments of \$47,175 consists of the following: \$28,251 realized gain of mutual fund capital gains distributions; \$20,791 realized gain of money market dividends and (\$96,217) unrealized loss on the growth and income pool. The market value of the stock mutual funds declined with the overall drop in the stock market at the end of fiscal 1998 which resulted in the unrealized loss.

**Note 3. Pledges**

Contributions of unconditional promises to give (pledges) to the JMNC Fund are recognized as revenue in the period received. They are recorded at their present value using a market discount rate. Accretion of the discount in subsequent years is also recorded as revenue. Outstanding pledges of \$234,300 at September 30, 1998 were discounted through fiscal 2000 at a market discount rate and are included in the statement of financial position at their discounted present value of \$220,715. The amounts due in future years at their current discounted value are: \$139,774 in fiscal 1999; \$80,941 in fiscal 2000.

**Note 4. Net Assets**

During fiscal 1998, the James Madison Council implemented SFAS No. 117. As a result, the beginning balances of unrestricted and temporarily restricted net assets for fiscal 1998 have been restated to reflect the retroactive application of the new accounting standard. The effect of these restatements are as follows:

Restatement of Beginning Net Asset Balances	Amount as Previously Reported	Adjustments	Amount as Restated
Unrealized Gain on Growth and Income Pool	\$50,686	(\$50,686)	\$0
Cumulative Results of Operations:			
Designated	1,911,365	(1,911,365)	0
Undesignated	1,410,444	(1,410,444)	0
Net Assets:			
Unrestricted-Undesignated	0	1,461,130	1,461,130
Unrestricted-Council Designated for Projects	0	1,005,975	1,005,975
Temporarily Donor Restricted for Projects	0	905,390	905,390
<b>Total Beginning Net Assets</b>	<b>\$3,372,495</b>	<b>\$ 0</b>	<b>\$3,372,495</b>

The effect of the retroactive restatement has been to reclassify a total of \$50,686 of unrealized gain on the growth and income pool and \$1,410,444 of undesignated cumulative results of operations to unrestricted-undesignated net assets (\$1,461,130). In addition a total of \$1,911,365 of designated cumulative results of operations has been reclassified between unrestricted-council designated for projects net assets (\$1,005,975) and temporarily donor restricted for projects net assets (\$905,390).

Ending Net Assets of \$3,165,904 is classified as Unrestricted-Undesignated, Unrestricted-Council Designated for Projects or Temporarily Restricted for Projects. Of this total amount, \$1,703,421 is classified as Unrestricted-Undesignated. The balance of \$1,462,483 consisting of \$796,657 (Unrestricted-Designated for

Projects) and \$665,826 (Temporarily Restricted for Projects) is earmarked for initiatives such as the Library's Bicentennial Celebration, the Permanent Treasures Exhibit, Illustrated Guides to the Special Collections and special acquisitions.

Ending Net Assets includes undelivered orders of \$253,079 which are funds that have been obligated for goods and services not yet received for JMNC Fund operations and designated projects.

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#### **Note 5. Imputed Financing for Cost Subsidies**

An adjustment of \$14,154 was recorded as an imputed financing source and a corresponding expense in the accompanying financial statements. This adjustment recognizes the full cost of pensions and other health and life insurance benefits during the employees' active years of service.

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#### **Note 6. Transfer to Other Funds**

The JMNC Fund transferred \$124,022 to two other funds during fiscal 1998: \$84,022 to DeWitt Wallace Reader's Digest Gift Fund for a film preservation project; \$40,000 to the National Digital Library Trust Fund.

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#### **Note 7. Expenses by Functional Classification**

As permitted by SFAS No. 117, the Library has elected to present its operating expenses by natural classification in its Statements of Activities for the period ending September 30, 1998. The functional breakdown of these expenses is as follows (see Schedule B):

Fiscal Year 1998 Expenses by Functional Classification	Amount
JMNC Fund Projects and Programs	\$ 560,211
Members' Specific Projects	726,208
Operations	441,551
<b>Total Expenses</b>	<b>\$1,727,970</b>

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#### **Note 8. Retirement Plans**

Employees of JMNC Fund participate in two different retirement plans. Civil Service employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS) FERS is the system in effect for most employees hired after December 31, 1983.

In fiscal 1998, the JMNC Fund paid approximately \$13,060 to fund retirement benefits, excluding FICA taxes.

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#### **Note 9. Subsequent Event**

During fiscal 1998, John W. Kluge, Chairman, James Madison Council, made a matching pledge to the National Digital Library Trust Fund (NDLTF) . For every dollar the Library raised, up to \$2.5 million, Mr. Kluge pledged two dollars. As of September 30, 1998, the Library had raised \$2.5 million qualifying it for the matching pledge of \$5 million from Mr. Kluge.

Mr. Kluge's pledge included a provision which stipulated that the Library could use his gift or a portion of his gift for support of the Library's Bicentennial celebration when gifts from other donors exceeded the required matching amount of \$2.5 million. Furthermore, he indicated that the reallocation amount, if any, should be transferred to the James Madison Council Trust Fund. As of September 30, 1998, this provision was not operative because the amount of the matching gifts had not exceeded \$2.5 million.

As of January 6, 1999, the Library has received additional NDLTF gifts of more than \$3 million that make the original amount given by Mr. Kluge to the NDLTF subject to reallocation. The Library has not determined the specific amount that will be allocated to the James Madison Council Trust Fund.

Independent Auditor's Report  
To the Steering Committee  
James Madison National Council Fund



We have audited the James Madison National Council Fund (JMNC Fund) for the fiscal year 1998.

In our opinion:

- The financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles;

We found:

- No material weaknesses in internal control over financial reporting; and
- No instances of noncompliance with selected provisions of laws and regulations tested.

Each of these conclusions is described in more detail below. This report also discusses the scope of our work.

#### **OPINION ON FINANCIAL STATEMENTS**

We have audited the accompanying statement of financial position of the JMNC Fund as of September 30, 1998, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the JMNC Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the JMNC Fund as of September 30, 1998, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information contained in Schedules A and B is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the JMNC Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### **COMPLIANCE**

As part of obtaining reasonable assurance about whether the JMNC Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the management, the JMNC Steering Committee and Congress. However, this report is a matter of public record, and its distribution is not limited.

*Clifton Henderson L.L.C.*

Greenbelt, Maryland  
January 15, 1999

# Supplemental Information

## Schedule A. Schedule of Designations and Funding for Outreach Programs\*

### JMNC FUND DESIGNATIONS

Designations, beginning of fiscal year	<u>\$1,911,365</u>
Funds uncommitted during the year	(100,808)
Designations made during the fiscal year **	<u>1,062,367</u>
<b>Total designations</b>	<b><u>2,872,924</u></b>

### FUNDING

JMNC Fund projects and program expense	560,211
Members' specific projects expense	726,208
Transferred to other funds for specific projects	124,022
<b>Total funding</b>	<b><u>1,410,441</u></b>
<b>Net designations, end of fiscal year</b>	<b><u>\$1,462,483</u></b>

\*During Fiscal 1998, JMNC members also contributed \$1,792,293 and pledged another \$11,300,000 directly to other gift and trust funds. These additional gifts supported the National Digital Library Fund, James H. Billington Fund, Marguerite S. Roll History and Genealogy Fund, Edwin L. Cox American Legacy Fund, Center for the Book Fund, Freud Trust Fund, Judaica Trust Fund, Bicentennial Gift Fund, Pulitzer Gift Fund for Conservation, Frontiers of the Mind in the Twenty-First Century Fund, Children's Literature Center Fund, Adopt-a-Book Fund, Library Services Gift Fund, and the Edward and Joyce Miller American History Fund.

\*\*\$703,164 as Temporarily Donor Restricted Designations and \$359,203 as Unrestricted-Council Designations. The Temporarily Donor Restricted Designations of \$703,164 are discounted in the Statement of Activities to \$679,662.

## Schedule B. (Note 7) Schedule of Expenditures

	JMNC Fund Projects and Programs	Members' Specific Projects	Operations	Total
Personnel costs	\$ 41,383	\$ 50,526	\$ 176,906	\$ 268,815
Travel and transportation and subsistence support persons	33,537	10,764	34,138	78,439
Other services*	185,065	<u>590,206</u>	66,022	841,293
Books and library materials	214,020	26,000		240,020
Exhibit Opening Events, Receptions, and Madison Council Meetings	<u>7,655</u>	15,566	74,557	<u>97,778</u>
Professional and consultant services	<u>51,237</u>	4,423	24,412	<u>80,072</u>
Office supplies and materials	1,764	15,310	<u>40,151</u>	57,225
Printing, publishing, and photoduplicating	<b>12,770</b>	3,564	<u>25,365</u>	<u>41,699</u>
Exhibit supplies	12,780	9,849		<u>22,629</u>
<b>Totals</b>	<b><u>\$ 560,211</u></b>	<b><u>\$ 726,208</u></b>	<b><u>\$ 441,551</u></b>	<b><u>\$1,727,970</u></b>

\*Includes \$252,413 for the "African American Odyssey" exhibition; \$64,947 for the "Religion and the Founding of the American Republic" exhibition; \$47,037 for the "Sigmund Freud: Conflict and Culture" exhibition; and \$82,401 for the "American Treasures" permanent exhibition for exhibition design costs, labor, lighting, security and advertising; and \$193,910 for the cooperative program costs of the Montana Heritage Project.